

IN THE MATTER OF
AMERICAN NATIONAL INSURANCE COMPANY
Galveston, Texas

MULTI-STATE REGULATORY SETTLEMENT AGREEMENT

TEXAS DEPARTMENT OF INSURANCE
Lead Regulatory Negotiator

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AMERICAN NATIONAL INSURANCE COMPANY
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MULTI-STATE REGULATORY SETTLEMENT AGREEMENT

This Multi-State Regulatory Settlement Agreement (the "Agreement") is entered into as of this 9th day of June, 2004 (the "Effective Date"), by and between American National Insurance Company (the "Company"), the Texas Department of Insurance (the "Lead Regulatory Negotiator"), the insurance regulators of the States of California, Georgia, Louisiana, and Oklahoma (the "Lead Regulators"), and the insurance regulators of each of the remaining states and of the District of Columbia that adopt, approve, and agree to this Agreement. Signatories to this Agreement hereinafter are "Participating Regulators."

I. BACKGROUND AND RECITALS

A. The Company maintains its home office at One Moody Plaza, Galveston, Texas 77550. At all relevant times herein, the Company has been a licensed insurer domiciled in the State of Texas

B. In 1988, the National Association of Insurance Commissioners ("NAIC") conducted a survey of race-based practices that asked if the Company had every charged race-based premiums, if it had discontinued issuing policies with race-based premiums, and if race-based premiums were currently being collected. The Company answered yes to all three questions and indicated that it had discontinued issuing policies with race-based premiums in 1964. Management conducted an internal study that identified 813 such policies in one plan code in a premium paying status. The Company, on its own initiative, responded by proportionally increasing the face amount of each of the 813 policies to the amount of insurance the premiums paid would have purchased at rates without any racial differential.

C. In 2000, several states, including Texas, conducted race-based surveys. As these state surveys were not limited to policies in a premium paying status, the Company's analysis identified a larger number of affected policies than the 1988 NAIC survey. In June 2000, the Company reported 21,235 in-force affected Industrial policies. (This number excluded the 813 policies identified and reported in 1988, which had already been remediated by the Company.) In August 2000, the Company amended several state

surveys to include 241 additional affected paid up Industrial policies that the Company had discovered as a result of further research. In June 2002, as a result of the Company's self-analysis of Ordinary policies with substandard table ratings, the Company further amended their state surveys to report 68 affected paid up Ordinary policies.

D. Commencing in 2002, the Texas Department of Insurance conducted a thorough market conduct examination of the Company concerning the issues set forth herein. A copy of the Target Market Conduct Examination Report (the "Examination Report") is attached to this Agreement as Exhibit A. The Examination Report concluded that the Company issued policies with racially differentiated premiums from 1936-1939 and from 1948-1964, at which time the Company discontinued the sale of such policies. The Report identified 40,010 affected Industrial policies and 68 affected Ordinary policies, for a total of 40,078 affected policies. The Examination Report notes that the Examination policy counts differ from the Company's self-reported counts because the self-reported totals were for policies in-force as of various dates in 2000, whereas the Examination policy counts include all affected policies in-force as of January 1, 1981.

E. The Texas Department of Insurance alleges that the Company or other insurance companies acquired by the Company sold certain industrial and other life insurance policies to non-white persons at higher premiums or with lesser benefits than policies sold to otherwise similarly situated white persons (the "Alleged Practices"). The Texas Department of Insurance contends that the Alleged Practices were discriminatory.

F. The Company vigorously denies and does not admit to any wrongdoing or violation of any insurance or other law or regulation of any state, but is foregoing its right to an administrative hearing under the applicable laws and regulations of any state whose insurance regulatory official signs the Regulatory Settlement Agreement and/or any Applicable Consent Order and is entering into this Agreement in exchange for the releases granted herein. The Company also agrees to accept the Examination Report and waives any and all rights to a hearing on the Examination Report.

G. The members of the National Association of Insurance Commissioners ("NAIC"), including the Participating Regulators, as the chief regulatory officials of their respective jurisdictions, have jointly agreed to designate the Texas Department of Insurance as the Lead Regulatory Negotiator, in consultation with other regulators, in order to negotiate this Regulatory Settlement Agreement on behalf of and for the benefit of the Participating Regulators and the NAIC.

H. This Agreement was negotiated in an effort to conclude with finality all regulatory allegations involving the impact of race on life insurance underwriting, sales, pricing or policy benefits on policies that were issued, assumed, acquired or administered by the Company prior to the Effective Date of this Agreement. By virtue of the terms and conditions set forth in this Regulatory Settlement Agreement, the Participating Regulators and the Company desire to resolve and have resolved all regulatory issues arising from or in any way relating to the subject matter herein described on the terms and conditions set forth herein.

II. EXECUTION OF AGREEMENT

A. The Lead Regulatory Negotiator represents and warrants that he is authorized to negotiate this Regulatory Settlement Agreement on behalf of the State of Texas and on behalf of the insurance regulators of each of the other states of the United States and of the District of Columbia.

B. G. Richard Ferdinandtsen, President and Chief Executive Officer warrants that he is authorized to agree to and execute this Regulatory Settlement Agreement on behalf of the Company.

C. By their signature and delivery of this Regulatory Settlement Agreement, as described below, and by virtue of the execution of this Regulatory Settlement Agreement by the Lead Regulatory Negotiator on behalf of and for the benefit of the Participating Regulators, each Participating Regulator acknowledges and agrees that: (1) they have read and understand the terms and conditions of the Regulatory Settlement Agreement and (2) the Lead Regulatory Negotiator has been actively involved in the evaluation and discussion of each form of relief which is included within the Regulatory Settlement Agreement. By the signature and delivery of this Regulatory Settlement Agreement, each Participating Regulator further acknowledges the sufficiency and fairness of this Regulatory Settlement Agreement and agrees that the execution of said documents fairly, reasonably and adequately addresses the concerns of Eligible Policyholders as defined in the Regulatory Settlement Agreement including the past, present and future policy owners, and any holders, insureds, beneficiaries, payees and other parties in interest with respect to this Regulatory Settlement Agreement.

D. Each Participating Regulator by way of signature below gives his/her express assurance that under their applicable state laws, regulations and judicial rulings, they have the authority to enter into this Regulatory Settlement Agreement. Each Participating Regulator shall execute and deliver this Regulatory Settlement Agreement to the Lead

Regulatory Negotiator within sixty (60) days following the receipt of this Regulatory Settlement Agreement from the Lead Regulatory Negotiator. If a Participating Regulator finds that, under state law, regulation or procedure, the preparation and execution of a consent order is necessary to carry out the terms of this Regulatory Settlement Agreement, such a consent order (the "Applicable Consent Order") shall be prepared by such Participating Regulator within sixty (60) days following the receipt of this Regulatory Settlement Agreement from the Lead Regulatory Negotiator.

E. For purposes of this Regulatory Settlement Agreement, an "Applicable Consent Order" shall be satisfactory to the Company if it: (1) acknowledges the authority of the Lead Regulatory Negotiator as described herein; (2) incorporates by reference and attaches via exhibit a copy of this Regulatory Settlement Agreement; (3) expressly adopts and agrees to the provisions of this Regulatory Settlement Agreement; (4) sets forth the penalty amount in the Administrative Penalty Allocation Formula Chart attached hereto as **Exhibit B**; and (5) includes other terms that may be required under law or regulations applicable to such consent orders generally in the state of the applicable Participating Regulator. However, nothing in this Regulatory Settlement Agreement shall be construed to require any state to execute and deliver an Applicable Consent Order if such State elects to sign this Regulatory Settlement Agreement and not prepare a consent order.

F. If any changes in the terms of this Agreement are required by any participating state to satisfy that state's particular statutory and/or regulatory requirements, such changes shall be incorporated into that state's State Amendment page and attached hereto and incorporated herein as to that state's requirements upon acknowledgment and agreement thereto by the Company. Those amendments shall have effect only for the amending state and shall have no effect on any other participating state.

G. This Agreement and its attachments and/or any applicable Consent Order constitute the entire agreement of the parties with respect to the matters referenced herein and, except for state-specific requirements as provided for in Section II (D), may not be amended or modified except by an amendment signed by all parties hereto; provided, however that the Company and the insurance departments of the states that are parties hereto may mutually agree to any reasonable extensions of time that might become necessary in order to carry out the provisions of this Agreement.

H. This Regulatory Settlement Agreement may be signed in multiple counterparts, each of which shall constitute a duplicate original, but which taken together shall constitute but one and the same instrument.

III. GENERAL MATTERS

A. In the event that any portion of this Regulatory Settlement Agreement is held invalid under any particular state's law as it is relevant to a Participating Regulator's state, such invalid portion shall be deemed to be severed only in that state and all remaining provisions of this Regulatory Settlement Agreement shall be given full force and effect and shall not in any way be affected thereby, and all amounts paid as penalties under Section VI to the Participating Regulator in that state hereof shall be refunded within ninety (90) days to the Company.

B. The Lead Regulatory Negotiator and the Company may mutually agree to any reasonable extensions of time that might become necessary to carry out the provisions of this Regulatory Settlement Agreement.

C. Except for the provisions related to an order to enforce the terms of this Regulatory Settlement Agreement by any of the Participating Regulators or by the Lead Regulatory Negotiator, the terms of this Regulatory Settlement Agreement and/or any related Applicable Consent Orders with each of the states shall be governed by and interpreted according to the laws of the State of Texas, without regard to existing principles of conflicts of laws.

D. The Company enters this Regulatory Settlement Agreement with the Texas Department of Insurance acting as Lead Regulatory Negotiator. All of the terms of the Regulatory Settlement Agreement shall be binding upon, and shall inure to the benefit of, the Company, and each Participating Regulator, and the successors and assigns of each of the foregoing.

E. The Company shall maintain records of its progress in completing the administrative acts required by this Agreement, and shall submit reports of such progress to the Lead Regulatory Negotiator on a monthly basis. The first such report shall be due within 60 days after the Effective Date, and a Final Report shall be due within 60 days after the expiration of the Claims made period specified in Section IV (F)(5). The Final Report, among other matters, will include: (1) the total amount of remediation paid; (2) the total amount of remediation paid by category; including by the state of the owner or beneficiary; (3) the total number of individuals who received remediation (4) and the total number of individuals who received mediation by category, including by state of owner or beneficiary.

F. If the Company defaults with any respect to any obligation under this Agreement and such default is not remedied within 30 business days following the Company's receipt of written notice specifying such default (during which period the

insurance regulator of the state in which such default occurred and the Company shall make reasonable efforts to resolve any disputes involving the default), the Lead Regulatory Negotiator may seek judicial enforcement of this Agreement. Written notice of any alleged default shall be sent to the following address: American National Insurance Company, One Moody Plaza, Galveston, Texas 77550, Attn: Gareth Tolman, Senior Vice President Corporate Affairs, or may be Faxed to (409) 766-6933

IV. REMEDIATION RELIEF

A. Definitions

1. "Eligible Policy" means a policy: (a) with a plan code identified in Exhibit 10 of the Examination Report (**Exhibit A**); (b) which was issued during the date ranges identified in the Examination Report; (c) which has not been previously remediated by the Company, and (d) which was in-force at any time after December 31, 1959.

2. "Identifiable Person" means an individual policyholder or beneficiary that the company can identify from its electronic records.

3. "Effective Date" means the date the Regulatory Settlement Agreement was executed by the Company and the Lead Regulatory Negotiator, the Texas Department of Insurance.

B. All Premium Paying Policies: Premium Reduction Relief

There are no Eligible Policies in a premium paying status as of the Effective Date.

C. Enforce Policies: Increased Death Benefit Relief

1. The Company shall, within 120 days after the Effective Date, calculate an increase in the face amount of each in force Eligible Policy for which the Company has complete electronic records according to the applicable percentage set forth in the Benefit Enhancement Grid set out in Exhibit C. In the event the Company is unable to determine an individual ratio for increasing the death benefit, the Company shall increase the benefit by 25%, which exceeds the average of the ratios for the Eligible Policies. The electronic records of the Company shall be adjusted to reflect the increases in the face amounts of the adjusted in force Eligible Policies.

2. The Company shall, within 120 days after the Effective Date, provide written notice to each Identifiable Person, who owns an in force Eligible Policy that was

adjusted by the Company pursuant to Section IV.C.1, of the increase in the face amount of his or her policy or policies. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit D**, will be mailed to the last known address of the Identifiable Person shown in the Company's Home Office records. If a particular jurisdiction requires changes in policy face amounts to be evidenced by, among other things, a new certificate or endorsement, then the Company, in addition to providing the Exhibit D Notice, shall provide to the policy owner the documentation required by that jurisdictions

D. *Terminated Life Policies*

1. The Company shall, within 180 days after the Effective Date, calculate an additional surrender benefit for each Eligible Policy that terminated by reason of cash surrender after December 31, 1959 for which the company has complete electronic records, except for those Eligible Policies for which enhanced surrender benefits were previously paid. The additional surrender benefit shall be calculated according to the applicable percentage set forth in the Benefit Enhancement Grid set out in **Exhibit C**. In the event the Company is unable to determine an individual ratio for calculating the additional surrender benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

2. The Company shall, within 180 days after the Effective Date, provide written notice to each Identifiable Person (or his or her beneficiary) who owned a terminated Eligible Policy for which an additional surrender benefit was calculated pursuant to Section IV.D.I of the additional surrender benefit, together with a check for the payment of such additional benefit. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit E**, and the check will be mailed to the last known address shown in the Company's Home Office records.

3. Each person (or his or her beneficiary) who owned an Eligible Life Policy which terminated by reason of surrender between January 1, 1960 and the Effective Date and for which an enhanced surrender benefit was not paid and who timely files a Valid Claim pursuant to Section IV(F)(5) of this Agreement shall receive an additional surrender benefit.

4. The Company shall pay to the claimant an additional surrender benefit calculated in accordance with the Benefit Enhancement Grid set out in Exhibit C within 30 days of receipt of proof of a valid claim. In the event the Company is unable to determine

an individual ratio for calculating the additional surrender benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

E. *Estates and Matured Life Policies*

1. The Company shall, within 180 days after the Effective Date, calculate the additional death or endowment benefit for each Eligible Policy that terminated by reason of death or endowment after December 31, 1959 for which the Company has complete electronic records and for which an enhanced death or endowment benefit was not previously paid. The additional death or endowment benefits shall be calculated according to the applicable percentage set forth in the Benefit Enhancement Grid set out in **Exhibit C**. In the event the Company is unable to determine an individual ratio for calculating the additional death or endowment benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

2. The Company shall, within 180 days after the Effective Date, provide written notice to each Identifiable Person (or his or her beneficiary) who owned a terminated Eligible Policy for which an additional death or endowment benefit was calculated pursuant to Section IV.E.1 of the additional death or endowment benefit, together with a check for the payment of such benefit. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit F**, will be mailed to the Identifiable Person at the last known address shown in the Company's Home Office records.

3. Each person (or his or her beneficiary) who owned an Eligible Life Policy which terminated by reason of death or endowment between January 1, 1960 and the Effective Date and for which an enhanced death or endowment benefit was not previously paid and who timely files a Valid Claim pursuant to Section IV(F)(5) of this Agreement shall receive an additional death or endowment benefit.

4. The Company shall pay to the claimant an additional death or endowment benefit calculated in accordance with the Benefit Enhancement Grid (Exhibit C) within 30 days of receipt of proof of a valid claim. In the event the Company is unable to determine an individual ratio for calculating the additional death or endowment benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

5. Benefits payable under Section IV (E) will be paid to the last identified individual beneficiary or beneficiaries as their interests may appear without regard to whether the policy was subsequently assigned to a funeral home or other artificial entity.

F. *Company's Undertaking Concerning Address Searches And Claims Process for Terminated, Estates and Matured Policies.*

1. *Delivery, of Notices of Increased Face Value.* The Company will make a thorough search of its Home Office records, and will mail notices to the last known valid address of the policyholder. If the Company is unable to find what appears to be a valid address for a policyholder, or if a notice mailed to a policyholder is returned to the Company as undeliverable, the Company shall make a further effort to find a current valid address through the use of Accurant, a software search program made available to the Company by an outside vendor, Seisint, Inc. of Boca Raton, FL. If an apparent current address is located by the vendor, the notice will be mailed or, in the case of a returned notice, remailed to that address.

2. *Delivery of Checks for Additional Death, Endowment or Surrender Benefits.* The Company will make a thorough search of its Home Office records in an effort to obtain a valid current address. Before checks are issued and mailed, the Company shall attempt to verify addresses in the Company's records through Accurant. If, despite a thorough review of its records and a search of Accurant's data base, the Company is unable to obtain a current valid address, no check will be issued but the details of the additional death or surrender benefit will be entered into a log of unclaimed benefits for use in future escheatment procedures. Similarly, if a check is issued and mailed but is returned as undeliverable, the check will be reversed and the details of the additional benefit will be entered into the log of unclaimed benefits for use in future escheatment procedures.

3. *Claims Made Procedure For Individuals Not Presently Identified.* The Company acknowledges that it does not have complete records for all of the Eligible Policies, and the Company may be unable to identify or locate all individuals that may be due monies based on its Home Office records. Therefore, the Company has prepared a public notice, the form of which has been approved by the Commissioner and a copy of which has been attached hereto as Exhibit G, notifying individuals who may be due monies under the Eligible Policies of their potential right to an increased death or surrender benefit.

4. *Publication of Notice.* **Exhibit G** shall be published in two national publications, in at least two major newspapers in each of the Lead States and in selected community newspapers in each state identified in **Exhibit H**. The identity of the publications, the size, and frequency of the notices in each of the publications are listed on Exhibit H. Publication of such notices will begin in each state within 120 days of the Effective Date.

5. *Claims Made Period.* For a period of 18 months from the date on which the Company first publishes the public notices described herein, the Company shall honor all legitimate claims received, providing the appropriate level of additional death benefits or surrender benefits, for Eligible Policies terminated by reason of a death claim or surrender between January 1, 1960 and the Effective Date. The Company shall pay all such legitimate claims within 30 days from the date of the receipt of proof satisfactory to the Company. Such proof may include, but is not limited to a policy, policy number, a policy application, correspondence related to a policy, and/or debit payment books or receipts, and shall include a signed Claim In form or other written statement which evidences that the claimant was the owner or beneficiary of an Eligible Policy. A Claim in Form is attached hereto as **Exhibit I** and will be sent by U.S. Mail to any individual who requests one from the Company or who calls the toll free number and requests one. In the event the Company is unable to determine an actual ratio for increasing benefits for an Eligible Policy, the Company agrees to increase the benefits by 25%, which is within the range of actual ratios used by the Company to adjust benefits.

6. *Escheat of Calculated Additional Surrender or Death Benefits.* Any additional surrender or death benefit calculated pursuant to Section IV (D) or (E) which remains undeliverable at the end of the Claims Made Period shall escheat to the appropriate state or states in accordance with their escheat procedures.

7. *Handling of Telephone and/or Mail Inquiries.* In order to respond to telephone or mail inquiries generated by the published notices, the Company will assign experienced Customer Service Representatives ("CSRs") within its Customer Service Center to handle calls coming in on the toll-free number contained within the notices. The CSRs will be thoroughly versed in the terms of the settlement, and will be prepared to assist callers by gathering information that will assist in determining if the caller is eligible for additional death or surrender benefits.

8. *Ongoing Review.* Should the Company in the normal course of business of paying claims, including those claims made pursuant to Section IV.F, identify additional policies where the race of the owner affected either premiums paid or benefits received,

then the Company will timely remediate such policies according to the terms of this Agreement.

9. *Evidence of Good Faith.* The use of the foregoing procedures will be deemed to represent a diligent good faith effort to locate policyholders and beneficiaries for the purpose of compliance with this Agreement.

V. UNCLAIMED BENEFIT SEARCH AND RELIEF

A. When a policy is identified under a claim submitted under the Claims Made provisions of this Regulatory Settlement Agreement, the Company shall, within 30 days, conduct a search for other American National life insurance policies on the life of the insured under the policy so identified, utilizing the protocols described in Exhibit J.

1. If the Company's search reveals that the deceased insured was covered by any other American National Life insurance policy that, at the time of the death of the insured, was providing life insurance coverage (including without limitation pursuant to a contractual non-forfeiture option), and with respect to which a death benefit was not paid, the Company shall use its best efforts to notify the beneficiary or beneficiaries of the life insurance policy and pay any death benefits due, plus any statutorily required interest, regardless of whether such benefits have already escheated to a state governmental authority.

2. If the Company's search reveals that the deceased insured was covered by any other American National Life insurance policy that, at the time it reached endowment, was premium paying, fully paid-up or providing insurance coverage pursuant to a contractual non-forfeiture provision, and with respect to which maturity benefits became payable but have not been paid, the Company shall use its best efforts to notify the person or entity to whom the policy's endowment benefits were payable (or, if such person is deceased, his or her estate) and pay the endowment benefits due, plus any statutorily required interest, regardless of whether such benefits have already escheated to a state governmental authority.

3. In addition, if the Company's search reveals that the deceased insured was covered under any other American National life insurance policy that was also an Eligible Policy, then the Policy shall be eligible for the settlement benefits provided for the Policy under this Regulatory Settlement Agreement.

B. Historically, the Company has always attempted to identify all in-force policies on the life of a deceased insured, using the protocols described in Exhibit J. The

Company will continue to follow that practice for all life claims received in the future, specifically including claims submitted under Eligible Policies, as identified in this Regulatory Settlement Agreement.

VI. ADMINISTRATIVE PENALTY

The Company agrees to pay an aggregate administrative penalty of two hundred fifty thousand (\$250,000), payable by the Company as follows:

A. Within 120 days of the effective date, the Company shall pay to the state of each Participating Regulator that executes and delivers this Regulatory Settlement Agreement, and/or any applicable consent order, the amount set forth in the Administrative Penalty Allocation Chart attached hereto as Exhibit B.

B. As to any state that does not execute and deliver the Regulatory Settlement Agreement within 60 days of the Effective Date, the Company shall not be obligated to pay that state or its insurance regulator any portion of the administrative penalty, and such administrative penalty that would otherwise be due to such state shall be redistributed proportionately back to those states with 1,000 or more Eligible Policies as set out in Exhibit B, the Administrative Penalty Allocation Chart.

VII. GENERAL RELEASE AND RELEASE FROM FURTHER REGULATORY EXAMINATION OR SANCTION.

A. By the execution and delivery of this Regulatory Settlement Agreement and/or any Applicable Consent Order and except as necessary to enforce the terms hereof, each Participating Regulator does hereby release and forever discharge the Company, and its past and present affiliated companies, and all past, present and future officers, directors, employees, shareholders, attorneys, agents and representatives, of and from all civil, administrative, criminal, or quasi-criminal causes, actions, claims, damages, fines, sanctions, losses, demands, or other liability that the States could pursue or seek based upon: (1) the Alleged Practices described in Section 1; (2) the Examination Report; or (3) distinctions in the terms or benefits of insurance policies based upon the race of the insured where such liability arises under the insurance and/or anti-discrimination laws and regulations of each state related or applicable to the marketing, solicitation, application, underwriting, benefit payment, acceptance, sale, purchase, operation, retention or administration of all life insurance policies sold, issued, assumed or administered by the Company prior to the date that this Agreement is signed.

B. Each Participating Regulator on behalf of itself and its respective state of authority also agrees to discontinue any further questioning, examination or analysis of the

Company that relates to the subject matter of this Regulatory Settlement Agreement and that any examination, issue or information request posed by any state of a Participating Regulator to the Company with respect to any Industrial insurance or certain other life insurance policy that is the subject of this Regulatory Settlement Agreement shall be deemed null, void and withdrawn.

AGREED TO this 4th day of August, 2004.

LEAD REGULATORY NEGOTIATOR

By: _____
Jose Montemayor, as Insurance Commissioner
For the State of Texas and Lead Regulatory
Negotiator

AMERICAN NATIONAL INSURANCE COMPANY

By: _____
G. Richard Ferdinandtsen
President and Chief Operating Officer

PARTICIPATING REGULATOR

By: _____
Mike Kreidler, Insurance Commissioner
State of Washington